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SUBJECT: HCMC SCENE SETTER FOR VISIT OF CODEL HAGEL

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11. (SBU) Senator Hagel: It is my pleasure to welcome you and your delegation to Ho Chi Minh City on October 5. The city has changed enormously since your last visit here in 1999. There is a new, modern satellite city to the south, extensive new construction in the center and a commercial and convention center complex planned for an area that was Viet Cong swampland when you served here in 1968. The process of change and modernization is accelerating as this region spearheads Vietnam's integration into the global economy.

12. (SBU) In your official meetings with the HCMC leadership and your visits around town, you will see a vibrant city that epitomizes the development challenges and opportunities that Vietnam faces: the youthfulness, hustle and entrepreneurial spirit of its people, the growing importance of U.S. and other foreign investors, the threat of HIV/AIDS, and the subtle but real challenges to one-party rule from the Internet, nascent civil society, the inflow of ideas from overseas and the incremental expansion of personal freedoms.

13. (SBU) Ho Chi Minh City and its neighboring provinces are the economic and financial heart of Vietnam. With roughly 15 percent of the population, this region accounts for over a third of GDP and national tax revenue and is home to over 40 percent of the country's foreign direct investment. At least 50 percent of Vietnam's \$3 to \$7 billion in remittances flow into the HCMC area. The city's importance as Vietnam's premier banking and financial center will continue to grow as foreign funds and domestic investors build up the HCMC Stock Exchange.

14. (SBU) HCMC Communist Party Secretary Le Thanh Hai is the senior-most politician in the city and a recent appointee to the Politburo. He is a savvy politician and a pragmatist. Along with President Nguyen Minh Triet -- who earlier held Hai's current position -- Hai is one of the architects of HCMC's growth. It is leadership helps explain why HCMC and some neighboring provinces are growing quickly -- up to double the national growth rate. Political leaders in the region are determined to create a government culture more responsive to private business needs. For example, in 2005, HCMC was dinged in a prestigious national survey (sponsored by USAID) of local government efficiency. The city held roundtables with business and internal meetings to work on shortcomings. The following year, Ho Chi Minh City jumped from 17th to seventh. Neighboring Binh Duong province was ranked first and Dong Nai province -- another key industrial neighbor -- was ranked fifth.

15. (SBU) These same leaders also have been relatively progressive in handling religious freedom and human rights issues. HCMC has partnered with the Catholic Church to combat

HIV/AIDS, the first such faith-based partnership in Vietnam. As Vietnam moves to legalize the operations of its many Protestant groups, HCMC has been the pacesetter for the nation. However, leaders of the staunchly anti-Communist United Buddhist Church of Vietnam remain under tight control, as does the city's dissident community; the authorities view them as threats to the regime.

¶16. (SBU) In your meetings with Party Secretary Hai and Chairman of the HCMC People's Committee Le Hoang Quan, I recommend that you stress that greater individual freedoms, financial and capital market reform and strengthening of rule of law are needed to prevent HCMC's growth from sputtering, particularly in a WTO environment.

¶17. (SBU) Following the signing of our Bilateral Trade Agreement with Vietnam, the United States has become Vietnam's largest export market. Intel is the latest U.S. Fortune 500 corporation to join Nike, ConocoPhillips, Citibank and other private American entrepreneurs -- many from the Vietnamese-American community -- in HCMC. Foreign investors see Vietnam as a cost-effective hedge to China, especially in lower volume but higher quality products such as knitwear and fine furniture.

¶18. (SBU) HCMC negotiated hard for the \$300 million Intel investment. This investment showcases the city leadership's determination to push into the software and technology sectors, with U.S. business helping to lead the way. U.S. business also is playing a key role in infrastructure development; the HCMC region urgently needs to upgrade its inadequate infrastructure -- roads, ports and airports -- lest this become a bottleneck to growth.

¶19. (SBU) Local U.S. business leaders likely will tell you that they are bullish on Vietnam's potential but will express frustration over how the government is implementing some WTO-linked reforms. They worry that regulatory uncertainty and lack of transparency could hamper business and trade

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development. They likely will press for the earliest possible Congressional approval of Permanent Normal Trading Relations (PNTR) with Vietnam, fearing that U.S. business would lose out to Japanese and European competitors should PNTR be delayed. You may also hear complaints that Vietnam's over-reliance on Official Development Assistance is hampering the development of efficient financial markets. You will be able to focus more intensively on this latter issue in your visit to the young and frothy HCMC stock exchange; the exchange is up by 65 percent since the beginning of 2006.

¶10. (SBU) HCMC welcomes Americans and American goods. Its people are future-oriented. Made in America has real cachet here. HCMC also has the country's most progressive media. The city's elite and its growing middle class look to the United States as the center of choice to which to send their sons and daughters to study.

¶11. (SBU) HCMC Party leaders know that their legitimacy rests in part on satisfying the economic demands of the average Vietnamese. They know that Vietnam needs to create close to 1.5 million jobs a year to keep pace with new entrants into the workforce. Many of these jobs will be in HCMC and other rapidly-urbanizing areas of southern Vietnam. Communist Party officials struggle to balance this need to modernize and grow the economy -- which requires a freer society and a more robust private sector -- with their desire to protect the power and patronage that allows them to dominate Vietnamese society. Some HCMC Party officials also have expressed some anxiety about the growth in influence and power of China. The struggle between reform and control helps explain many of the actions and decisions of HCMC's leaders and is the subtext for much of the ongoing debate -- sometimes echoed in HCMC's increasingly robust press -- between modernists and hardliners in the Communist Party.

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